"The Scrip"
MANY INVESTORS; ONE VOICE
New Zealand Shareholders Association Inc.
NZSA
ISSN 1179 -4275
June 2013

In this Issue

Equity needed around equity raising

It is said that a person eating the meal is a better judge of its quality than the chef. A similar argument applies to companies raising capital. Perhaps some directors need to remember that shareholders are the diners and they are the chefs. Some of the equity raising dishes they are serving us are simply not palatable!

Companies need to raise additional equity for many reasons. Perhaps their borrowing is at uncomfortable levels or a sudden purchasing opportunity has arisen. Other reasons may be more subtle. For instance, attempting to broaden the shareholder base to increase market liquidity with the (dubious in my opinion) expectation that the share price will rise, or perhaps seeking a cornerstone shareholder for stability or to ward off a hostile takeover offer.

There are a variety of ways companies can raise additional equity. Investors need to ensure that directors act, not only in the interests of the company, but also in a fair way towards all shareholders. In general terms that means avoiding dilution of some shareholders holdings to the benefit of others. The rise in institutional shareholders in the past thirty years has led to many situations where retail shareholders are progressively being disadvantaged. Institutions have very different agendas to most retail investors and generally seek to achieve instant profits when capital is being raised. Companies with poor capital management policies are easy prey. All retail investors should be complaining to directors and chairmen when they are treated as poor cousins .Don't be afraid to tell them that if you agreed with their unfair proposal, you would both be wrong! The NZSA only gets to hear about a capital raising after it is announced. At that point it is too late. We can only change the mindset of some boards by weight of numbers.

The fairest way to raise capital is to do a pro rata tradable rights issue. This means that all shareholders get the right to purchase additional shares in exactly the same proportions and at the same price. If a shareholder lacks the cash or simply does not want to take up their rights, (both of which will result in dilution), these can be sold via NZX and often achieve at least some modest return. People wanting to increase their holding can buy the rights and later use them to purchase shares.

The problem with rights issues is that they take several weeks to organise, are relatively expensive due to the requirements around disclosure documents and lack certainty around the returns unless underwritten (which also costs). Views vary, but often a greater discount to the current share price may be necessary to get rights issues fully subscribed and this can impact on the cost of capital. A current example where a rights issue is proposed is a 7 for 20 issue by Ebos. However, because of the size of this transaction, a whole battery of methods is proposed, including a share placement to the vendor of Symbio, and another to the institutions, as well as a bonus issue to the existing shareholders to clear out the accumulated imputation credits.

Recently we have seen increasing numbers of companies using a combination of "placements" to institutional investors and Share Purchase Plans (SPPs) for small investors to raise additional funds. These include Argosy, Hellaby, DNZ and Metlifecare.

The NZSA is becoming concerned at the way this trend is developing. Essentially an SPP allows an existing investor to buy up to $15,000 worth of new shares, regardless of their holdings. This is inequitable in two ways. Larger shareholders may need a larger amount to avoid dilution and smaller shareholders are unreasonably advantaged. In addition if you do not purchase shares you get nothing, but are diluted. Worse still, if the issue is oversubscribed, scaling will occur. Unless this is done in proportion to the number of shares originally held, unfairness is heaped on unfairness.

The other aspect worrying us is that in some cases retail shareholders are being offered only a small proportion of the total new issue compared with that going to institutions, meaning they are all diluted before the process even starts. . One director tried tell me that things were roughly proportional. However, while 50% of current shares were held by retail, only 30% if the new shares were available to retail. He also said there was no real dilution, but on questioning, it turns out this was based on all retail investors taking up the full $15,000 entitlement, something that was not only unlikely, but actually impossible given the small size of the offer. This dinosaur clearly needs a maths lesson!

Companies like this process because it can be done quickly (especially the institutional offer) and it is less expensive. Institutions are also keen because often the discount to the current share price they obtain allows them to book an instant profit, particularly when the retail issue lags behind by a few weeks. (I should point out here that the issue price to retail will be the same as to institutions and that this is a timing benefit only). Where time pressures are acute, we still think companies with strong balance sheets should consider short term loans while a rights issue is organised. An SPP has its place in limited circumstances but remains very much second best in our view.

Despite the problems SPPs are still vastly superior to simple share placements to institutions. While these do occur, they are often in small companies where retail shareholder support cannot be relied on. A recent example is Wellington Drive where the retail SPP was only 55% subscribed.

The NZSA has been in discussion with many companies recently, reminding them that retail shareholders should not be forgotten when it comes to fund raising. Of course, companies always claim they have special circumstance! In some cases they have carefully considered all options and gone for the one with the lowest cost of capital. While directors have fiduciary duties to the company, we think this is overridden by the need to act for the benefit of all the shareholders. Where the cost argument is not really material, fairness and equity to all should always win the day.

John Hawkins

Chairman

Golden Parachute Policy

Following publicity over the Minder Initiative in Switzerland, and new rules in other parts of the EU, the NZSA has reviewed its policy on upfront lump sum payments on the employment of senior executive staff, redundancy, bonuses paid on completion of a takeover or merger and retirement allowances for directors. This policy statement should be read in conjunction with the NZSA Executive Remuneration Policy.

Golden parachutes are defined as excessive severance payments to executives and directors, whether in cash, options, or shares. A similar term, Golden Handshakes is used to describe excessive signing on bonuses.

It is noted that directors have sometimes appeared to accept larger than normal termination payments to avoid extended legal action by the retiree. This can be easily avoided if the employment terms are clear at the outset, providing for regular performance reviews, and severance conditions. Publishing employment terms for senior executives is one of the best ways to ensure that due care and attention is paid to getting the details correct. This is common practise in jurisdictions that require detailed remuneration reports to form part of the Annual report to shareholders.

In 2004, largely after pressure from NZSA, NZX introduced rule 3.5.2 which says that retirement allowances must be approved by shareholders and cannot be more than a year's salary, calculated over any 3 years stipulated by directors.

NZSA supports the development of remuneration packages in which there is a substantial element of at risk, short and long term incentives, based on measurable performance hurdles for above average performance. This means that executives will usually have accrued benefits, payable on severance from their employer. The press does not often discriminate between such accruals and other discretionary payments and this can be misleading to investors. Where appropriate, NZSA make public commentary to clarify that payments should not be seen as "Golden Parachutes" or "Golden Handshakes" where this is not in fact the case.

The NZSA Position:

1. That NZSA opposes payments made to executives on joining a company, because this reflects a failure to plan succession internally.
2. That NZSA opposes special retirement allowances.
3. That any redundancy payments be at no greater rate for executives or directors than those applying to other staff.
4. That details of any special signing on or severance arrangements be clearly disclosed at the time a new senior executive is recruited.
5. That Pension payments be the same percentage rate for all employees whether director or staff, (including the rate of both employer's and employee contributions.)
6. NZSA opposes special payments to executives on the successful completion of a takeover or merger of their company regardless of whether these are paid by the target company or the purchasing company.

Voting discretionary Proxies

Where possible, the NZSA will vote against extraordinary additional remuneration packages that breach the guidelines and objectives of the policies outlined above.

Where companies have consistently failed to observe these guidelines and the board concerned is unwilling to change its policy going forward, the NZSA will vote discretionary proxies against the re-election of directors standing at the next AGM of that company.

Editor: NZSA policy statements on the various aspects of governance are published in the public section of our website. Go to "nzshareholders.co.nz," choose "Resources," and click on "Policy Statements."

Notice of NZSA National Conference and AGM

NZSA Conference 2013 – Christchurch. Saturday 7 September.
Theme: Business Connecting New Zealand to the World.

The exceptional line up will include:

- Sir Henry van der Heyden, Fonterra, Auckland Airport,
- Simon Power. Former Minister of Commerce and Justice.
- Sue Sheldon, Chorus, Freightways and Contact Energy
- Mike Daniell CEO of Fisher and Paykel Healthcare
- NZSA 2013 AGM

Further speakers, full details of the programme and registration information will be announced shortly.

Investors should not miss this incredible opportunity - Free to NZSA members including lunch.

Remember that notices of motion and nominations must be in the secretary's hands 44 days before the meeting - that is by Friday 26th July.

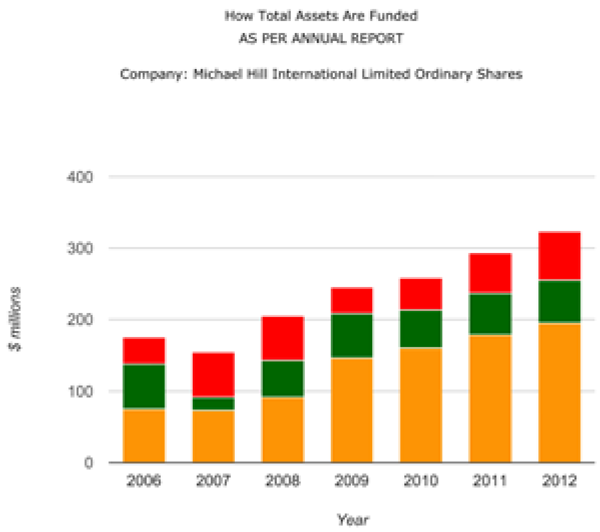
CKPD – Company Key Point Data

For the past 2 years the board subcommittee of Des Hunt, Chris Curlett and Alan Best, ably supported by post graduate accounting student, Sione Taufa, and our website provider Netinsites, has been updating the vital statistics from the annual reports of the top 50 companies. We have completed the annual results up to 2012, and aim to keep these current as this year's annual results are published.

Exclusive to NZSA members, the CKPD graphs are available on the NZSA website. Click on Members, enter your member number and access code, click Company Key Performance Data and choose the company and chart you are reviewing.

The key charts are:

- How the total assets of the company are funded. In the example across you can see a company with steady growth in shareholders equity, conservative gearing of long term borrowings and high stream of current liabilities which are largely offset by current assets.



	2006	2007	2008	2009	2010	2011	2012
Total Equity($mill)	75	73	91	147	160	178	194
Long Term Liabilities($mill)	63	19	52	62	53	58	61
Short Term Liabilities($mill)	36	62	62	37	46	57	69

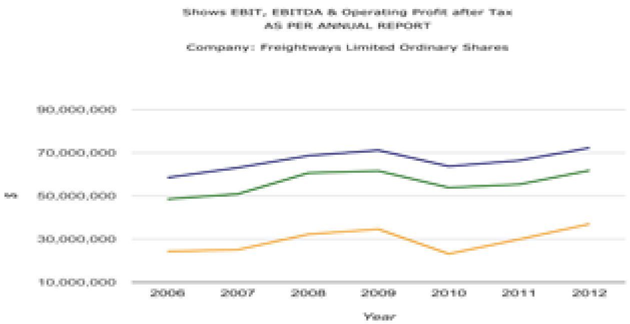
How Total Assets Are Funded

- Return on funds. This shows the percentage return on Assets, percentage return on Equity and in the background bar charts the gearing. There are two scales to reflect the risk and the reward. The Restaurant Brands chart shows a modestly geared company with it recent consistent performance of returns on assets and equity.

	2006	2007	2008	2009	2010	2011	2012	2
Return on Assets(%)	3.20	-3.01	8.38	8.16	18.97	21.83	16.14	1
Return on Equity(%)	7.48	-10.89	26.42	22.27	40.13	41.28	28.32	2
Gearing(%)	42.30	62.48	57.16	50.72	10.35	23.76	24.09	2

Return on Funds and Gearing

- Total earnings. This shows the lines of EBITDA, and below that the near parallel of EBIT, with the NPAT line reflecting the deductions from earnings to give the net profit figure.



	2006	2007	2008	2009	2010	2011	
EBITDA($)	58,491,000	63,123,000	68,648,000	71,184,000	63,742,000	66,433,000	72,
EBIT($)	48,563,000	50,915,000	60,663,000	61,607,000	53,881,000	55,362,000	61,
OPAT($)	24,306,000	25,091,000	32,250,000	34,593,000	23,164,000	29,899,000	37,

Shows EBIT, EBITDA & Operating Profit after Tax

- Shareholder returns. This is shown in cents per share – the EBIT and net profit figures per share compared with the dividend per share.

	2006	2007	2008	2009	2010	2011	2012
EBIT(cents/share)	16.5	16.3	19.1	13.1	17.6	15.9	19.9
Net Profit(cents/share)	8.4	7.5	9.2	3.4	2.3	7.6	10.8
Dividends(cents/share)	8.2	8.2	8.2	8.2	8.2	8.7	10.5

Shareholder Earnings

- Not shown here, we also have the Chairman and CEO base salaries compared to the net profit figure in 2 scales, and the Directors fees and CEO base compared to dividend. These are useful when we talk to companies about their remuneration proposals before the AGM. We have included a sample with the article from Auckland Branch on The Warehouse.

Updating the figures:

Our graduate assistant, Sione Taufa is allocating time to update the annual statistics as they are published by companies so that they are ready before each AGM.

Where to from here?

So far we have concentrated on the statistics for the top 50 companies. We are extending the number of companies, and will soon include all the major listings on the main board except the managed funds.

The plan is to extend our graphs to include the cashflow compared with net profit, and the operating cashflow compared with financing and investing cashflows.

Further out we hope to include a feed from NZX for pricing information so that the various ratios such as p/e, div yield and p/s can be viewed at the push of a button. All this at the end of your Smart phone. NZSA will keep up the momentum.

Alan Best

Directors govern, Managers manage – 3 problems

Editor: Rob Campbell's succinct article on the line between governance and management was recently published in NBR. We thought these comments from a practising director worth reprinting for members.

The popular governance mantra "directors govern, managers manage" sounds plausible. It was recited at the Institute of Directors conference in Auckland, and by Justice Paul Heath in his judgement on Nathan's Finance.

Like most such slogans, it has a superficial attraction but carries within it the seeds of nonsense. The mantra has at its heart a separation of function which appeals to the neat theorists, or perhaps one should say the orthodoxies, of "management speak." One might say, managers must manage, so directors clearly must be doing something else.

Governing seems to fit the pay and age seniority of most directors and probably also appeals to the ego, and the desired level of exertion of the group. Ah yes, governance, that sounds like me at my stage of life.

First problem with the mantra

The first problem I see with the mantra is that there is now a raft of legislative provisions which bear directly and personally on the director. These provisions carry heavy fines and even potential imprisonment which are not easily or automatically delegated to managers.

You can govern away to your heart's content, and tick off check lists with the diligence of a parking inspector, but many of the things which can hurt a director are in practice done by managers. All absolutely fine if the managers are doing what they are supposed to be doing, but unfortunate if they are not.

So the wise director will not only, as former US president Ronald Reagan said of Soviet disarmament policy "trust but verify", they will be quite happy to hop across the line when managers default and take action. Rightly so!

Second problem with the mantra

Directors are fully responsible for the content and accuracy and compliance status of financial statements. Quite right, too!

We can review, get audits and question but the truth is that much of the basic material is in management's hands, and only the most egregious errors of information are likely to be identified at board level. The ball is not only in the management's court, but it and its companion are in management's hands. So the wise director with any doubts, or simply to test the temperature, will want to dive into areas where managers manage, to gain reassurance that said balls are safe.

The third problem with the mantra

The third issue is that in many businesses, large and small, there are directors who are also managers. There are different views about this in large business structures, but it remains common. In small businesses there is no choice.

Many of us have experience in such structures, and it tends to be not so much that we think with different hats in and outside of the boardroom, but that we carry our director's hat into the management room rather than vice versa, because that is where the big risks fall, even if the big salaries are on the management side of the door.

Don't get me wrong; some of my best friends are managers, but the mantra should really be something like "managers manage and directors manage the managers, change the managers, or take the consequences if the managers don't manage well".

Rob Campbell

Low ball offers – Warnings are now not necessary

Since our last Scrip, low offers have continued, and the warnings to shareholders published. However there has been a change. A glance at the recent offer for Vector shares shows the clear comparison between current market price and the offer, as well as payment terms.

NZSA has supported the disclosure of all offers for shares no matter where they come from. That is a market. Now, with the comparative information shown boldly on the front page, we have finally reached the stage where we can say:" "If people are too lazy to read the document and then consign it to the rubbish bin, there is not much more that can reasonably be done to protect them from themselves".

Alan Best

Voting in ASX listed meetings

We have noticed that most of the Australian Index companies are offering the opportunity to vote on the internet. Unfortunately most smaller or medium sized companies are not.

To exercise your vote on line, there are 3 possible points of entry:

1. Where your voting form and meeting agenda have been received by post, look for the online voting instruction, and follow the instructions, including your CSN or HIN.
2. Where your voting advice and agenda have been sent by email, you will follow the instructions in the email by pressing the link, and using the access code.
3. Where you have not received the instructions, or you wish to override a previous voting decision. You will need to have registered as a user of the registry. Simply use your login and password, and proceed to the holding. Click on Voting and go through the steps.

It is worth while sending company secretaries an email if they have not yet enfranchised overseas voters. Many smaller Australian companies are registered in Perth or Brisbane and even local Australian voters are unlikely to attend their meetings. However if you have several family holdings in such companies, the mail charges are a deterrent to returning the proxy form, and the fuss of gaining extra signatures in a Family Trust means that voting chances are lost. So let your company know you would like to vote on the net.

Alan Best

Financial Literacy in Victorian Times

Financial literacy (or a lack thereof) is regularly cited as a factor in our current financial malaise. This month the NZ Commission for Financial Literacy and Retirement Income is holding a two-day seminar and workshop "What Works? Research and Evaluation in Financial Literacy." The seminar is fully booked with a waiting list.

The US Government backed Investor Education Foundation in 2012 conducted a nation wide survey to measure the financial literacy of American adults. Respondents were asked five simple questions – nationally, the result was an average of 2.88 correct answers. I would expect all readers of this newsletter to score a 5. You can try the test for yourself at ***www.usfinancialcapability.org/quiz.php***

Having patted yourself on the back, lets stop and compare our literacy with that of our pioneer settlers. While financial literacy was not mentioned in Victorian times it seems to have been picked up by osmosis from everyday life.

Sometime missionary, printer, explorer, Treaty of Waitangi observer, Member of Parliament, Napier Town Councillor and school inspector, William Colenso's life was woven through 19th century New Zealand history. When visiting Waipawa (primary) School in 1873 he asked students to answer this question. **1**

A, B, C and D went into partnership.

A put into the business £674.13/6 for 4 years 5 months and 19 days.

B put in £2463 14/8 for 2 years 3 months and 24 days.

C put in £896 17/9 for 6 years 8 months and 17 days.

D put in £346 18/7 for 3 years and 4 months.

Their gross gain was £2487 13/2 and the expenses in working the business was £596 15/9

I wish to know the net gain and what was each partner's share.

James Woodhouse Bibby (in form 1), perhaps with some homework help from his shopkeeper father, was one who got it right. He was awarded a prize for his effort. Can you work it out? Are your eyes glazing over? Stop and reflect a little instead of pounding your calculator keys. My answer is on **page 20**

This question reminds me of a modern company prospectus and the need to separate the wheat from the chaff. Can you do so with Colenso's question? If you got it right you should not have a problem understanding a prospectus.

Bruce Parkes

1. *Wells Peter, William Colenso: School Inspector, New Zealand Memories Issue 98 (2012) pp 4-7*
I thank Peter and NZ Memories for permission to use their material

Company Meetings

New Zealand listed companies now usually post AGM presentations by the chair and CEO, on their website. Our commentaries therefore concentrate on the flavour of the meeting and the questions raised by shareholders. We encourage members to use the company website, before attending the general meeting, to see what has been said previously, and to familiarise themselves with the latest news. Comments are those of the attendee, who will often be a shareholder in the company, and are not necessarily NZSA policy. ***Run your cursor over the report heading for a link to the company website***

GPG AGM 23rd May

NZSA carried proxies from over 50 shareholders

Chairman Rob Campbell spoke first of the orderly realisation of assets, including the sale of 10 investments in listed entities during 2013. In spite of expected realisations from Tower's sale of its health, funds management, and life operations, GPG cannot distribute the proceeds, because it is under instructions from the Pensions regulator in UK. GPG has bought back 70mGBP of its own shares, and has 102mGBP cash. It needs a minimum of 120mGBP to cover existing pension liabilities, but expects to have 390mGBP when the realisation programme is completed.

Coates, the future core GPG, is a global thread and zip manufacturer, with 20,000 staff, spread over 6 continents, supplying all the major apparel and footwear brands, 3 times the size of its nearest competitor. Its recent investment in digital sales platforms has resulted in significant internet growth. A video presentation shown at the AGM is available on the GPG website. Product development in Coates such as programmable fibre, reprocessed fibre, or extra strong thread, and zips are major opportunity areas for GPG shareholders in future.

Significant cost reductions in the directorate and head office staff have seen the use of consultants closely controlled and full time staff down to 15. Coates will soon have a new chair, and the remaining work for GPG staff and board is being scoped, with a view to reducing staff and directorate eventually to zero.

Around the world, defined benefit schemes, are proving to be underfunded, as life expectancy increases and fewer new entrants are signed up. Pension schemes should be independent of the company whose staff participate, but the UK pensions regulator can demand that the company supports its scheme financially. The Regulator (TPR) is at present investigating whether it needs to insist on support for the 3 GPG schemes, Coates, Brunel and Stavely. Without compulsory support, GPG would have 390mGBP for capital returns. However all returns are suspended, pending TPR's investigation. The note 9 of the GPG Annual Report tells us that recovery plans spread over several years, for Coates 101mGBP and Stavely 20mGBP (Brunel needs no extra funding,) will require only 22mGBP in the 2013 year, while the an increased inflation of 0.1% would result in an increase in pension liabilities of 19mGBP. However an increase in the discount rate of 0.1%, would decrease pension liabilities by 27mGBP, and in on going schemes such as Coates the possibility of a return above the 2012 discount rate of 4.8% is high. The chairman was non committal about GPG's future liability, but did agree that reversion to more normal interest rates could alter the position.

In discussion of the annual report, the resumption of AGMs in London was questioned, and the chairman suggested that information meetings could be held in NZ although listing and administration remained in London. He also agreed that interactive meetings via the net would be considered.

Our proxy John Hawkins, questioned the provisioning after the previous understatement of contingent liabilities to the European Court of 135mGBP, and was assured that the pension subcommittee met every week, and that other provisions such as currency, capitals notes and onerous leases were sufficient.

The Remuneration report was passed with only 53% of votes, although Rob Campbell explained that it was skewed by large payments made to former directors, and indicated that directors fees would be substantially reduced from now on.

Messrs Campbell, Allen, and Szlezak were elected easily, although Szlezak's absence was disappointing as we had a number of questions for him about the Soros Group's intent.

We noted that the authority to issue shares, and the waiver of pre-emption provision, which are routine under UK regulations, were opposed by over 20% of voters. We also pointed out that the introduction of 14 days notice for an annual meeting further disadvantaged NZ shareholders who might wish to attend or organise proxies for a meeting in London.

Shareholders who attended hoping for a revelation were disappointed. The message now is "Patience; wait and see."

Alan Best

Opus International Consultants AGM 13th April

Opus International NZ had entered into a joint venture with a related party and was seeking shareholder approval. One of our members had contacted the Branch as he was not happy with the provision for only two New Zealand based directors in a total compliment of five. His concern lay with the fact that both parties would commit the same initial investment and accept the same level of risk but not have equal representation on the board. We were asked to evaluate the Notice of Meeting and the independent appraisal report from Price Waterhouse Cooper.

A scrutiny of the documents by John Hawkins showed there was more to this. Not only was there an issue with the split directorships but also with the voting rights of the directors and a waiver of Listing Rule 9.2. The company was asking the shareholders to forego their right to approve future large capital injections into the joint venture. This would expose them to the possibility that their investment could be put at serious risk without their knowledge, until the 50% of capital value level was reached at which point listing rule 9.1 would be activated. By then it could be too late.

It was also quickly identified that the independent appraisal report by Price Waterhouse Coopers was not only flawed, and woefully inadequate in identifying the full extent of the risks to shareholders.

After some discussion and assessment the Association concluded that we would build a case to address the matters and raise them as a matter of concern at the AGM.

The research and the preparation for this meeting was intense. We prepared a case that concentrated on three points:

1. The split in the five member board of 3/2 with the New Zealand partner holding only two directorships
2. The terms under which the transfer of shares would be controlled. This involved the value set for either party to acquire the shares of the other in the event of a default.
3. The waiver on listing rule 9.1 and the removal of shareholders rights to vote on commitments made by the board without shareholder approval.

Initial discussions between John Hawkins and the Chair of Opus, Mr Kerry McDonald, revealed that the conditions under which the defaulting party would sell their shares to the non-defaulting party should be at 115% of the fair market value not 85% as per the Notice of Meeting. The company acknowledged this and issued a statement to the NZX correcting the wording in the independent report.

Preliminary discussions with Mr McDonald confirmed a poll vote which he said was company policy, and was the norm for them. The addresses of both the Chairman and the CEO were positive, and can be found on www.opus.co.nz – investor centre – shareholders – annual meeting.

The three resolutions covering the election of auditors and 2 directors were supported by NZSA. The fourth resolution, which contained all the problems was introduced by the chairman with a detailed explanation clearly designed to cover the contentious points. Essentially he made a case for accepting the resolution on the grounds that if the waiver of listing rule 9.1 was not approved it would seriously inhibit the company's plans in the Middle East. He commented on the incorrect percentage in the Transfer of Shares clause, and implied that the company had only noticed this in the last couple of days.

The NZSA proxy was quick to point out that the discovery of the incorrect percentage was in fact due to the efforts of the NZSA; a point the chairman conceded. Our preference for equal board representation was expressed, but was not insisted on as we could see some sense in the 3/2 arrangement. We were considerably more forceful over the matter of the board voting on issues and the confusion surrounding the veto vote. This involved the assurance that the New Zealand directors would vote in unison, and a vote against any resolution would ensure a veto on that resolution. The wording in the Notice of Meeting and the independent appraisal from Price Waterhouse Cooper did not specifically say this and implied that two votes would be necessary. This left the potential for the imbalance in the board to take precedence and exercise a majority vote. The association, while expressing concern and putting in a firm request for this to be reviewed did not dwell on the point.

What was more controversial was NZSA's concern at the open-ended approval for capital injections to the joint venture. The Association insisted that the removal of listing rule 9.1 without modification endangered shareholder rights. The Association was of the view that if this provision was to be waived then a provision for shareholder approval at least every four years was necessary and not unreasonable. The company did not want to do this, arguing at the AGM, that this would discourage existing and potential customers from entering into long term contracts with Opus. However, NZSA's proxy pointed out that that the approval would apply only to forward contracts and not interfere with confirmed historical arrangements. Our intention was simply to ensure safe guards were in place for minority shareholders. The Association proxy pointed out that if this resolution was approved, there would be no going back; they would give away their right to approve any financial commitment in the future.

The discrepancies in the Notice of Meeting and the poorly worded Independent Appraisal produced by Price Waterhouse Coopers were exposed as was the fact that proxies already in place were effectively done under misleading circumstances and therefore not technically valid.

Apart from the NZSA, only two others stood to ask questions. One. Mr Kevin Thompson, a former executive of the company, asked for clarification on the 3/2 director split requesting an assurance that there was nothing lurking in the woodwork that would bring the 3/2 voting into play and the 1/1 voting stands aside. The chairman gave an "absolute assurance that the 3/2 directorship is not imbedded in some concealed provision; the 1/1 is dominant" Was this a prearranged question, we wondered.

An independent shareholder took the microphone and criticised the NZSA for being pedantic on an issue that was not justified, and stated that the shareholders should have "faith and trust in directors who had served them well". Such a statement took no cognisance of the fact that thousands of investors did just that up to 2008, and suffered seriously as a result. Sadly some people have short memories.

The resolution was never going to fail on the day due to the short notice the Association had to communicate the issues. There were about 70 shareholders present and it would be a fair assessment that all but two of them voted against the resolution judging by the count released some hours later.

Max Smith and Robin Harrison

Refining NZ AGM 30th April

Despite its location many kilometres from anywhere, Refining New Zealand (commonly known by its ticker name New Zealand Refinery) draws a strong attendance to its AGM at Marsden Point. Most of the 150 chairs set out were occupied as chairman David Jackson reported on activity for the 2012 year. He described 2012 as a year of contrasting halves – a disappointing loss in the first half then a turnaround with a record intake of product and distillate production. Revenues, impacted by a volatile exchange rate, were down. The ability to continually lift operational performance was critical in achieving a better than expected financial result for the full year. Strong cash flows allowed continuing investment in Te Mahi Hou (re-development), providing shareholder dividends (7 cents a share fully imputed) and ensuring the integrity of the company's assets. An increased profit is forecast for the 2013 year.

Processing arrangements between NZR and its customers (oil companies) are reviewed annually by the independent directors and management. They have also been reviewed in 2009, 2012 and 2013 by independent consultants Pervan and Gertz and found to be reasonable.

New CEO Sjoerd Post opened by noting that while his accent indicated he was not a New Zealand native, he had been in the country since 1985 and he was the first permanent CEO of the Company. Using aerial photographs he graphically compared Marsden Point with its competitors – large modern Korean refineries. The Caltex refinery in Yeosu has a capacity of 760,000 barrels per day of crude oil compared with NZR's 135,000. Korea has 3 of the world's 10 biggest refineries and provides an alternate source of finished fuel for NZR's customers. Global overcapacity has impacted on Australian refineries with both Shell and Caltex closing plants.

Mr Post believes Refining NZ can remain competitive through plant reliability, producing cleaner fuel products and a strategy of continual improvement. As part of the 2013 half year report he expects to be able to report further on strategy refreshment.

There were two sets of motions for discussion at the meeting.

First, the election of directors. Three non independent directors were up for re-election. The NZSA maintains our position from 2012 that the current board is too large and it is unnecessary for oil company shareholders to have two representatives. I therefore voted undirected proxies in favour of Michael Bennetts, who represents one half of the ownership of Z energy, but against Kim McMillan and Mathew Elliott who are direct oil company appointees. I noted that this was a vote on principle and not a reflection on their individual abilities. In reply to my comments Mr Jackson said that the oil company nominees were outstanding up and coming managers; they provided strong input to board meetings; and he had no problems with the size of the board – discussion just took a little longer.

I share Mr Jackson's opinion of the non independent directors. They are outstanding managers but the role of a director is (or should be) different to that of a manager and they need different perspectives. To add some colour to this, I note that the day after this AGM the company advised the NZX of the resignation of director Peter Morris and the appointment of Dean Gilbert (the GM of Chevron NZ) in his place. The board met before the AGM so this was surely known but not mentioned during discussion on the election of directors. If necessary, the market could have been told at the same time as the AGM; or perhaps the changing of one oil company functionary for another is considered of no interest to the shareholders – at least until the next AGM when Mr Gilbert will have to be re-elected.

Mr Jackson also noted that the board is seeking a replacement for independent director Andrew Clements who has resigned.

Second, three resolutions by shareholder Mr Bryan Halliwell.

Mr Halliwell has been pressing his case for a number of years. He says it is so complicated that it would take a High Court Judge sitting for a year to sort it out. In brief, he claims that minority shareholders are carrying the cost of a "gain sharing arrangement" where the customers are given a $200 million illegal discount. Further, Mr Halliwell was seeking company funding for his proposed action against the company.

Mr Halliwell was given the opportunity to address the meeting. His presentation was not persuasive and his final remark that, whatever the outcome of the vote, he would continue his action against the company, was met with hostility when the debate was opened to the floor.

Mr Post, in his reply, said Mr Haliwell was comparing the NZR situation, where the customer retained ownership of the product and paid the coastal shipping costs, to overseas refineries, where all the cost was carried by the refiner. The "discount" is a regularly reviewed adjustment, originally calculated by Deloittes in 1995, to offset the additional costs carried by the customer. The adjustment, which has been approved by shareholders, was a pragmatic solution which kept NZR competitive in the market.

Mr Post was persuasive. The vote against Mr Halliwell's motions (including NZSA proxies) was 99.4%.

Bruce Parkes

Veritas SGM 29th April

Veritas is completing a reverse takeover of 'The Mad Butcher' chain. A quick read of the Investment Statement, Answers to Important Questions, seems to give a concise explanation as to how the business operates. Media articles can easily be accessed through the websites of Stuff & NZ Herald.

Before the meeting I spoke with Mark Darrow the independent chairman of the company.

There are no costs to The Mad Butcher Business associated with setting up franchisees. Franchises for The Mad Butcher cost about $200,000. This includes the lease of the premises, & fridges etc. Westpac Bank currently 'funds' about 25 franchisees and is likely to provide further franchisee funding packages.

The Mad Butcher meat is fresh, whereas supermarkets process their meat at central processing plants and may store it for up to 6 weeks in inert gas. I pointed out that this needs to be explained, as a point of difference, to customers. Though I may have suspected this, I had not given it much thought.

The Investment Statement explains that The Mad Butcher Business has an established supply chain from whom it purchases meat & on sells to franchisees at a margin & receives 'rebates' from suppliers. No dividends will be paid FY2013 though are expected to be paid FY2014.

Mark Darrow ran the meeting well, clearly explaining the NZX rules. There were no questions. About 40 people were present several of whom were media, brokers etc.

There are three independent directors, Darrow, Newland, Preston on a board of five though there will be two other directors appointed with the completion of the takeover.

There were 1.56m proxies, about 68% of shares. More than 99% supported the motions. A poll vote was completed.

Mr Darrow explained that early in the search for an investment Veritas identified The Mad Butcher as being of interest &, despite looking, kept coming back to the company as it had a simple business model, high cash turnover & growth prospects, including by acquisition.

Michael Cornell

Briscoe's Group AGM 16th May

Another year of record profit in its 12th year! I always come away from Briscoes' annual meetings with a feeling that the whole team are passionate about their business and work strongly together. Their Group incentive programme delivers. Briscoes is a company with no debt and a strong balance sheet and is well placed to take advantage of the changed retail landscape.

Key Financial Performance figures:

Sales revenue	$452.7m up 3.35%
Gross profit margin	40% up from 39.5%
NPAT	$30.4m up 10.7%

Net cash flows$31.4 m down by $10.62 m due to higher inventory balance,new stores and increased payments to suppliers

Please go online to read the Annual Report, but of particular note, were the following:

- Rebel Sports was able to replace the strong sales driven by the Rugby World Cup and perform well in spite of a new competitive entrant into the market place.
- Managing Director, Rod Duke, said that the global financial crisis had fundamentally changed the way customers now shopped. What they want is: Simplicity, the clutter removed from their lives, to be treated fairly, and they want quality and value. In meeting these demands, Briscoes is improving stock-turn and increasing the amount of product they import directly, providing a better margin and taking advantage of the strong New Zealand dollar.
- Continued growth was delivered in their online business covering all 3 brands, with Living and Giving moving in the future, to a predominantly online business, supported by a small number of stores. In answer to a question on the percentage of revenue coming from the online business, Rod Duke was hesitant to place a figure on this for competitive reasons, but assured the meeting that at this stage there was little cannibalisation of store sales. Industry norm is that 10-12% of total sales

will come from an online division and there is no doubt there will be a strong future for the Briscoes online business.

- In saying this, there will also be growth opportunities for both store brands, Briscoes Homeware, and Rebel Sports, with 2 new Auckland stores for each in Newmarket and Westgate in calendar 2014, and a refurbishment of older stores throughout the country.

Rod Duke assured the meeting that Briscoes "are committed to being the best place to shop for our customers, both in-store and online".

All resolutions were passed and a fuller explanation of Resolution 2 seeking an increase of $95,000 in the remuneration for Non-Executive Directors was given. This was that they were a small Board seeking a replacement Board member with strong multi-channel retail experience, and they wished to have the capacity to appoint an additional new Director and to be able to reward with a fair and reasonable income if strong candidates came to the fore.

Jacquie Hagberg

Caught on the Net

Amazon's letter to shareholders

Amazon CEO Jeff Bezos' letter to shareholders should inspire every company to sacrifice this year's profits to invest in long term customer loyalty. ***More***

Wiki NZ

Is a collaborative website making data about NZ available to everyone. A modern take on the NZ Yearbook. ***More***

The AGM is badly broken

So says John M Green in the Business Spectator. His comments are spot on and his suggested solution should be read by all company directors. ***More***

Should we trust Economists?

Are economists just charlatans, to be scorned as medieval cranks? Or, for all their flaws, are they really the best experts we have? Noah Smith sets out to answer this question in an Atlantic article. ***More***

Why you are never to old for the banks

The Age reports on Westpac signing up a 98yr old to a 30 year mortage; adding that Westpac is by no means alone in attending to the centurian market. ***More***

Aus/NZ currency union would drag Australia south

So says Oliver Marc Hartwich in a Business Spectator opinion piece. ***More***

Historical Echoes - The Mississippi Bubble

18th century Scotsman, John Law, credited by some historians as being "the father of inflation." turned gambling IOUs into "gold counters," then state debts into paper money, and finally sold all France down the river on the "Mississippi Bubble." This story resonates today. Liberty Street, a Federal Reserve Bank blog, has lots of material, including video and animations. ***More***

Warren Buffett sees 'brutal' damage for savers from central bank money printing

Mr Buffett says those nearing pension age have paid the price for quantitive easing. ***More***

The debt to pleasure

A nobel prizewinner argues for an overhaul of the theory of consumer choice. ***More***

Six ways to separate lies from statistics

The Reinhart-Rogoff blooper has generated thousands of responses. Should we trust statistics? Betsey Stevenson and Justin Wolfers offer six rules for separating useful research from the dross. ***More***

Australia's most overpaid CEO

There would be many nominees for this prize. The Sydney Morning Herald has a favourite. ***More***

Bruce Parkes

Branch Reports

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We recognise that branch reports in our newsletter do not adequately represent the expertise and preparation of the presenter. Members are encouraged to refer to the individual company websites for the latest news and disclosures. The work of these professionals who give their time is appreciated by all who attend.

Auckland

Branch Meeting 17th April:

Mighty River Power

Joan Withers, chairwoman of Mighty River Power (MRP) addressed the Auckland Branch just two days after the release of the official release of the details of the controversial share offer. Joan was also supported for the evening by two senior members of the MRP management team, Frazer Whineray (General Manager Operations) and Mark Trigg (General Manager, Development).

This was the first opportunity for Joan to speak to potential investors since the share offer was formally released, and her address was to be followed by quite a few more in the weeks ahead. She acknowledged the assistance give by some members of the NZSA board in the final preparation of the offer document which was an interesting recognition of the regard in which our organisation is held in the business community.

Joan outlined the basics and the proposed timetable of the offer and indicated that MRP were looking forward to being compared with their peers in the public market and seeing a broader shareholder base. She then briefly covered some of the operational statistics of MRP. At present more than 90% of their generation was from hydro and geothermal, both renewable resources. Joan confirmed that the Board had approved a dividend policy in November 2012, which set the pay-out ratio to 90-110% of NPAT (Net Profit After Tax)

Frazer Whineray then gave some insights into the history of the electrical industry including the significance to the Tiwai Point smelter with its consumption of up to some 13% of total demand. In 2012 generation was more than 50% hydro with approximately 14% from geothermal sources. There was quite a degree of general information delivered but not a great deal of detailed specifics both before and during the Q&A session that followed.

For further information regarding both financial and operational aspects of Mighty River Power Limited it is suggested that the reader refers to the Might River Power share offer document and also their website http://www.mightyriver.co.nz.

Robert Johnston

NZX

Tim Bennett, has been CEO of NZX since May last year and gave an overview of the NZX business groups and changes happening in the overall market.

The portfolio of rural activities was highlighted with the Farmers Weekly publication, other online rural market information, the Clear Grain Exchange trading platform, and the dairy derivatives market, rural activities representing a 1/3 of the business and generating stable revenue growth. Generally the NZ capital market was under represented in the rural sector.

In the Private Markets Sector the NZX operates markets for wholesale Electricity as well as the Fonterra Shareholders' Market enabling trading amongst farmers. A Gas trading market was being launched and NZX was keen to develop business with other co-operatives.

The third area is the Smart Shares trading business and the traditional business of equity and debt and futures markets along with listing fees.

The Regulatory role has been separated from other Markets businesses and is assessed annually by the Financial Markets Authority.

He commented on some significant changes to long term trends in the improvement in the "Markets" which started with the Capital Markets Taskforce in 2009, continued with KiwiSaver's confident fund manager activity, and now the mixed ownership model share offers.

Why did the markets take off in the last quarter of 2012?

- Was it luck due to the boom in soft commodities?
- Higher yields in NZ equities and decline in Resource stocks in Australia?
- Low interest rates on bank deposits and maturing higher yield bonds?
- Fonterra Shareholders Fund Units listing?
- Australian & Asian fund managers showing more interest in the NZ market?
- Sell down of major holdings – Sky TV, A I A, TradeMe, Metlifecare and strong IPO sales – Summerset and Moa?

There were big challenges noted ahead in 2014 to maintain growth momentum:

- Companies unwilling to list – several large privately owned companies and many local authority controlled businesses.
- Many smaller companies required expansion capital to grow.
- In the mid-sized $30 to $50m category, those identified were: Agriculture, Technical Innovation and large service businesses. Public listing would be good for these businesses, for investors and for the country, but most do not want to be listed, and many could be sold in stress or end up as trade sales, if they did not list when the time was right.

In response to questions from the floor, program trading and "algo" trading was discussed.

Noel Thompson

***Editor**: Some members were mystified when Tim launched into "Algo-trading." High frequency, microtrading is based on algorithms, which are simply step-by-step, mathematical programmes. The "algo – trading" comes from that. It is automated high frequency trading which picks little troughs, or arbitrage opportunities, and buys and sells rapidly for small margins. If the programme is a good one on the law of averages the small margins mount up and you get an accumulating profit day by day as you go along which becomes a very high return on a relatively small amount of capital. Big markets are best for the activity with currency being the obvious one*

Future Branch Meetings

All at Alexandra Park Convention Centre, Green Lane. 7pm tea & coffee – 7.30 pm start

Wednesday 19th June,

Featuring Mark Powell, CEO The Warehouse; Chris Lee, Principal Chris Lee and Partners Ltd

Wednesday 18th September.

Johnathan Mason CFO Fonterra; Christopher Luxon – CEO Air New Zealand

Company visit – The Warehouse Distribution Centre 8th May

Our visit occurred in 3 parts – An introduction to the distribution centre by Jon Adams, General Manger Merchandise Support, and then Paul Judd General Manager Finance, for the Red Sheds – a tour of the facility in smaller groups led by the executive team– and a corporate presentation by Mark Powell CEO.

The introduction concentrated on the overall strategy of the 92 Red Sheds, "house of bargains and home of essentials," and built round the major retailing events for the year such as Christmas, Easter, and Mother's Day. This mixed with the Red Alert programme, exposure of the full range online, evaluation and introduction of new brands, plus ongoing refits, (24 budgeted for the coming year,) makes for a busy programme of margin and category growth.

It was evident from CFO, Paul Judd's address that he was quite at home with the marketing and corporate strategies, though he was hands on in margin-growth to EBITDA level in the stores. His awareness of the multichannel strategy, focusing on direct customer engagement, and the aim to develop credit services and technical support, as well as his awareness of local communities, gave us the opportunity to experience grass roots management in this business. Questions covered store refits a cycle which will be completed in 2015, online research which is covered in a range of focus groups, and the mixture of direct ownership and leaseback in the 92 sheds.

The tour of the 40 acre site revealed TWS's drive for greater efficiency in distribution. Only about 10% of store supplies come direct from manufacturer or importer, as compared with about 50% in Noel Leeming and the Blue Sheds. In its quest for the best possible supplier price, the attraction of a single delivery point is emphasised. This largest warehouse then has to accommodate 8000 stock lines in a huge variety of sizes and weights in 43000 pallet locations. Bar codes printed from the stock management system allow pickers to consolidate mixed stock for individual stores, while the location of high-turn lines near to the loading bays reduces handling. Foundations for a huge extension at the rear of the site will soon demand another 60 staff above the 200 required for the existing distribution centre. Don't be surprised to find that Noel Leeming and Bond and Bond will become more efficient quite soon.

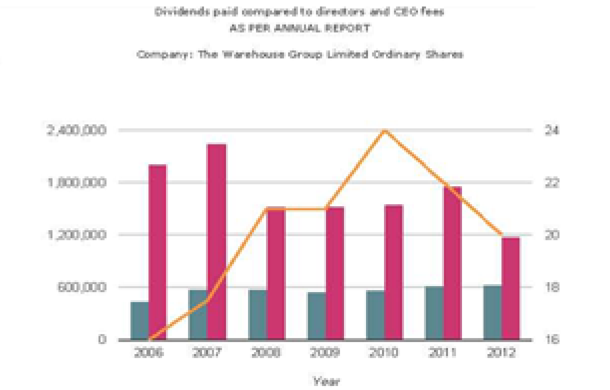
Mark Powell's presentation only 2 days before he was due to announce a good result for the 3rd quarter was positive without giving away any secrets. 2 years into the CEO's job, he laid out the way in which he was redefining the group. The summary of the 3 retail groups and their respective market positions is shown on the website – the Red Sheds with an emphasis on the basics and 7000 staff – the Blue Sheds growing strongly with 1000 staff - and Noel Leeming aimed at the more sophisticated segment with 1500 staff. Mark's efforts have been directed to identifying the core competencies, both existing and forecast, and focus this by store and customer. His observations were those of a hands-on operator. To his new immigrant experts: "Translate your expertise. Don't assume you can simply transfer it." To staff: "Everyone is involved in problem solving to improve the customer experience"In recruiting: "We need people who are analytical, and then respond fast." On organisation manuals: "Unfortunately we have a generation who believe that the power point is reality. It is actions and customer focused people who make the difference" On the programme: "We are here to make a 100year business."

Question time was more challenging. Mark claims to have been uncompromising on quality control. Lines with a high return rate have been withdrawn, and returns now run below 5% in all categories. After years of decline, shareholders are seeing signs of renewed growth which will eventually result in increased dividends.

The overlap in product ranges amongst the 3 retail groups is not serious, because larger manufacturers make entry level products (Red Shed) and more sophisticated products (Noel Leeming,) and commercial office products, (Blue Shed,) often all under the same brand. Mark deflected a question on succession planning, by talking about honesty amongst staff and managers, which grows naturally when all are involved in continuous improvement, and creates its own positive institutional memory to avoid the pitfalls of the past. Mark and his management team, in their red polos were refreshingly hands on, no nonsense retailers, who value customers, staff, investors and products.

One more plug: as a visitor I felt briefed when I looked up the graphs on the NZSA members' website and copied some of the graphs, showing total liabilities, return on funds against gearing, and the one pictured below Profit compared with CEO and Directors fees. After the decline there are some positive signs.

Alan Best



	2006	2007	2008	2009	2010	2011	2012
Total Directors Fees($)	$429,000	$566,000	$573,333	$542,000	$559,000	$609,000	$617,000
CEO Salary($)	$1,996,000	$2,243,000	$1,522,000	$1,521,000	$1,537,000	$1,748,000	$1,169,000
Dividends(cents/share)	16.0c	17.5c	21.0c	21.0c	24.0c	22.0c	20.0c

Dividends paid compared to directors and CEO fees

Future Auckland Company Visits

Tuesday 23rd July – Link Market Services – Marcelle Ashcroft

Wednesday 21st August – Mainfreight – Don Braid MD – limit 20 people

October and December visits – to be advised soon

Please register for each visit separately with Uli Sperber

uksper@gmail.com

Confirmation details will be sent approximately a week before the visit.

Waikato

24th April Don Braid: Group Managing Director of Mainfreight (MFT)

Don might have titled his talk “How to be different and very profitable”...

- He and Bruce Plested run a no nonsense immediate response business – each branch and each owner-driver in MFT’s world knows the bottom line at the end of the week’s work – no half-yearly reporting here.
- Don’s immediate measure of business is the return on revenue, not return on capital.
- Where possible premises are not leased; land is bought and buildings suited to MFT are built. That has meant more capex and less share of that year’s profit to shareholders.
- Non-executive directors stay, taking time to absorb the culture – for each, MFT is a career, not a 5 year tenure.

With 75% of revenue offshore, Don and Bruce spend about 40% of the year travelling – seeking new volume business and visiting branches. When at a branch Don looks for evidence of the culture of MFT, like efficiency in operations and the small things which matter. He certainly is passionate about MFT and its future as a NZ owned operated and listed company.

He is open too about Europe and the Wim Bosman Group. With big differences in cultures in countries from Russia to Spain, MFT has had to adjust parts of it’s style – no owner-drivers there. It sounds like a work in progress but Don is sure of success in Europe. For MFT the learning from Europe has been to grow organically, not by acquisition. One line of questions was about the fall in the share price after the profit update in March. Don suggests the market has yet to accept that the size of MFT globally, which means that it will not correlate as closely with local market conditions.

Joe Carson

May Meeting – Summerset – Nora Barlow CEO, and Julian Cook CFO

They pointed out that age group 65+ accounts for 10% of our population yet accounts for 55% of acute admissions to hospital and 72% of bed stays

NZ’s older population is projected to grow rapidly, and more are choosing to live in retirement villages.

Summerset builds, owns and operates retirement villages in NZ .

Summerset is the third largest operator, second largest developer in NZ, with a build rate of 200 units 2013 rising to 300 units by 2015

Their model is full continuum of care offering is key to ensuring village success. They cover the needs from Villas to hospital beds within each village

They showed us how their model is self-funding with sales of occupation rights covering development costs with recurring earnings coming from care fees, service levies and resale gains

Their FY12 Review shows

- they significantly outperformed IPO forecasts
- increased long term build rate with no additional funds required from shareholders
- acquired two key sites in Auckland- Hobsonville & Ellerslie

And they have won, for the third year in a row “Best Retirement Village Operator in Australasia 2012”

Their development margin has increased, and they have moved to develop all new sites themselves.

Their presentation was well received with many questions addressed to the presenters showing a keen interest in knowing more about retirement villages and their workings from senior members, while the younger members were more interested in the bottom line performance

Yes, they had plenty of potential customers in the room!

John Davies

Future Waikato meetings:

Tuesday, 25 June, 2013 Mid Year AGM and Dinner, Fiona Mackenzie, Head of Investments, NZ Super Fund with over $20 billion assets.

Bay of Plenty

During April our monthly meeting attended by 40 members were given a presentation by Karen Clare dealing with on line share trading. Members were taken through the steps to create and online account with ASB Securities. She then provided a demonstration of making a securities purchase and sale. Also the demonstration showed what additional tools were available to assist with coming to a decision. During the ensuing discussion costs / fees, the value of Morning Star / Big Chat were well debated.

However at the end of the presentation by a show of hands 35% used modern technology to make their purchase or sale, while 65% still preferred to work through a traditional broker, the main reason being, the human touch is still valued and sought after.

Helen McDonald spoke briefly about the annual competition where 28 members have entered. In the month the 2013 competition has been running, the range of returns varies considerably from minus 7% to plus 10%. The average is a small gain of 1.2%. However there is still a long way to go but even at this early juncture, the contest is attracting spirited discussion.

Kerry Drumm provided an interesting discourse on several of our leading companies, with key data taken from their annual reports, and placing them in a comparative table that will be reviewed as the year passes. This information provided information on levels of debt, cash flows, earnings per share etc.

David Higson spoke briefly on the importance of having cash on hand for several reasons. Examples given were that older investors should keep more of their portfolio in ready cash. Also having cash on hand provides opportunities when they come along for those rare “quality” purchases. His main comment was “Where does cash stand in a crisis.” Of course the counter argument during discussion was by sitting on a cash hoard one may miss the opportunity.

It was also a pleasure to welcome another new member to our midst.

Our AGM was held on the 24th May attended by approximately 50 members. John Hawkins our national chairman was our guest for the evening. His presentation was wide ranging with all present gaining an appreciation of the many and varied tasks our board undertakes during the year. The branch certainly appreciated his effort to be present at our annual function.

It was also announced to members that the committee are preparing a membership drive to coincide with Money Week in September. Planning is well advanced.

A committee of nine was duly elected for the 2013 / 2014 year.

The members are Lloyd Christie, Kerry Drumm, Ian Greaves, David Higson, Jane Lyndon (chairperson), John Mainland, Neil Parker, Ross Sheerin and Allen Smith.

Allen Smith

Wellington

Since I last wrote we have had NZX and Z Energy along to present, both sessions were well attended and very interesting. We had also hoped to get Mighty River Power along before their share float got away but in the end they couldn't fit us in, probably a good thing, it might have encouraged someone to buy their shares.

We have Meridian pencilled in for our 11 June meeting - I am really looking forward to this presentation as I want to hear their views on how their renewable energy focus will fare in a more commercial environment. However we are waiting on final confirmation that they can speak to us, and if they do what they can say, given pre prospectus advertising constraints.

We will be holding our branch AGM as part of our meeting on 9 July.

Martin Dowse

Canterbury

The Canterbury Branch held a meeting for members on 18th April with a talk from Roger Carruthers, CEO of Connexionz Ltd; the company which has developed the "real time bus information system". This was an excellent presentation on Connexionz's operations. It is a private not publically listed company which operates its bus monitoring/scheduling programmes in a number of NZ and North American cities.

Our schedule talk on 23rd May from Ron Boskell, former CEO of Postie Plus had to be cancelled because of a health issue.

The next meeting will be on Thursday, 6th June at 2:30pm when Mr Jolyon White, Director of Anglican Social Justice Unit, will make a short presentation and open discussion on their campaign for a "Living Wage". We are expecting a lively debate.

We will be attending the forthcoming Special General Meeting of EBOS to be held here in Christchurch on 14th June and acting as NZSA proxyholders for the vote on their recently announced expansion plans into Australia.

Our branch AGM will be held at 5pm on Thursday, 27th June at the Balmarino Room on the Riccarton Park Function Centre. It will be followed at 5:45 by a presentation from Tim Brown, (member of Infratil's Senior Management Team, Director of Wellington Airport and NZ Bus).

The Committee is progressing well with plans for hosting the National Conference and AGM on Saturday, 7th September at the Chateau-on-the-Park in Christchurch

Robin Harrison

Colenso Answer:

A, B, C and D were in partnership. Therefore, all losses and gains would have to be shared equally. Each would get back their capital investment plus a quarter of the net profit. The time of their capital investment is not relevant.

Net profit was £1890 17/5 = £472 14/4 and a farthing per partner

Members' Issues

Imputation and Franking Credits

Shareholders in either New Zealand or Australia who hold shares in the other country are disadvantaged over company-earned, taxation credits. It would appear that there is a major degree of intransigence by the taxation authorities in both countries. We all know that reciprocal recognition may cause a minor diminution of the total tax take, but it is both unfair and counterproductive. I consider this to be a matter which both the NZSA and the ASA should pursue together.

While the Australian top company tax rate is 30%, the NZ rate is 28%, but this minor difference should not lead to the huge differences between the top franking and imputation rates which in my record appear to be about 43% (A) vs 33% (NZ) Further I wonder how NZ companies operating in Australia offer shareholders no imputation credits, while the Australian shareholders in the same company enjoy high level of franking credits. In both Fletcher Building and Nuplex NZ shareholders get a lower level of imputation credit than Australian shareholders in the same company.

In a portfolio containing 16 Australian companies and 23 NZ companies, I calculated the ratio of tax credits against the gross dividend for the past two years:

Year 31/03/2012 Australia – 37.21%; NZ – 31.76%

Year 31/03/2013 Australia - 40.54%; NZ – 32.97%

The data included no interest or property returns, and all companies paid dividends in both years.

I have been investing in both markets for about 50 years, and my accountants have shed no light on this patch of "dark energy." I believe this complexity discourages broader savings and investment on both sides of the Tasman.

I would like to see NZSA and ASA seek feed back from members to clarify this matter, and to make submissions to governments on both sides of the Tasman to simplify and reduce this vexing impost on shareholders.

Tony Knights

Editor: *I have taken the main points from Tony's letter. We do need more feed back on this issue, but will consider it in our monthly board meetings. NZSA has, in the past, raised this issue with development officials (MOD now MBIE), and received the following replies:*

1. *It is not the international norm to provide tax credits for underlying taxes paid by foreign companies.*
2. *Allowing tax credits for foreign tax, apart from withholding tax arrangements, does remove an incentive for shareholders to supply capital to New Zealand businesses.*
3. *Australia does have a specific capital gains tax, and always raises this as an issue when common tax arrangements are proposed by New Zealand tax officials. If a future NZ government implements a capital gains tax similar to Australia's, we may see progress on allowing imputation/franking credits.The FDR tax is not seen as levelling the playing field between the 2 countries.*
4. *The arrangement under which both NZ and Australian companies can allocate tax payments to shareholders, on income generated in the respective markets, leave the calculations to the individual companies and their auditors, subject to review by the respective tax authorities. As Australia is a bigger market for most larger companies, we would expect franking credit to Australian tax payers to be larger than imputation credits to NZ tax payers.*

NZSA board has formed a subcommittee to recommend the best approach to the issue. IRD's reply to our correspondence on FDR may be seen on the public section of the website under "We do - Correspondence."

Alan Best

Statutory capping of Auditor's liability

There has recently been discussion on the liability of auditors. Could an upper limit be placed on claims for damages resulting from an auditors' mistake or omission?

The arguments for, are made by the Institute of Chartered Accountants. The loss of any one major firm, as happened to Arthur Anderson in USA, would leave the NZ market with too few auditors. The increasing trend to litigation has exposed inadequate insurance cover, and a reluctance amongst insurers to indemnify auditors. The economics of insurance would be fixed by a limit on liability. The EU has recommended limiting an auditor's civil liability, because partnerships were unable to defend large claims by global companies. It is also said that limiting liability would assist staff recruitment and retention, and they claim, it would enhance reporting by removing the risk of an impossible claim. Auditors would be braver in their interpretation and advice.

Some board members have considered this, and countered the arguments. Is loss limited for investors, small creditors, and subcontractors of failed companies? Limiting liability is more like to lower the bar, encourage a "she'll be right" attitude, and lead to sloppy work. The courts already have the power to assess liability in the light of an auditor's ability to pay. "Leave it to the judge," says Grant Diggle.

Another member points out that auditors have recently introduced the term that they are liable only to "shareholders as a group." We understand this arose from a Bank seeking to pin liability on an auditor over misleading accounts. So auditors are not liable now to lenders, not liable to prospective stakeholders who want to invest money in the company, not liable to bidders for the whole company, not liable now to shareholders individually, but presumably only liable to the directors who hire them, as agents of shareholders as a group. It's all very cosy for the modern auditor. The only protection for an investor is the election of competent independent directors, who should negotiate proper fees and terms of engagement. Appointing a shareholders' audit committee is unnecessary if the independent directors are doing their job.

A cap is arbitrary and may not adequately cover the liability involved for one company while being more than adequate for another.

We would be interested to hear any other opinions on this issue, but meanwhile we will probably agree with Grant. "Leave it to the judge."

Alan Best

Upcoming Events

For more information go to Branch section of NZSA website

2013

June 19	Auckland Branch Meeting
June 25	Waikato AGM and Dinner
June 27	Christchurch Branch Meeting
July 9	Wellington Branch Meeting
August 13	Wellington Branch Meeting
August 20	Waikato Branch Meeting
September 18	Auckland Branch meeting
September 24	Waikato Branch Meeting

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ISSN: The National Library has allocated the International Standard Serial Number 1179-4275 to The Scrip so that researchers will have access to our material.

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Layout Bruce Parkes